G. S. PAPER II – GOVERNANCE, SOCIAL JUSTICE

Development processes and the development industry- the role of NGOs, SHGs, various groups and associations, donors, charities and other stakeholders
Q. Why has ‘participation’ and ‘empowerment’ gained wide currency in recent development literature?

Decades of development efforts have provoked a feeling of disenchantment with the conventional growth-oriented strategy of development not producing the desired trickle-down effect. The failures sensitized the planners and administrators to the need for drawing on the indigenous knowledge system of the local people. Unless people themselves participate, the programmes administrated by external agencies remain exogenous to the rural community thereby affecting results. A people-centred vision is being advanced by citizen’s organisations working to create an alternative world order based on economic justice, environmental stability and political inclusiveness.

As the Human Development Report (UNDP 1993) commented: “People’s participation is becoming the central issue of our times”

Q. So, is people participation a recent discovery?

‘People’ as real actors in history have been brought forward by the ‘Subaltern’ school. Peasant resistances were subtle and effective peoples’ actions against oppression. People do act, it is for us to appreciate it and mobilise it for participatory people-centric movements. People as development actors emerged long ago in the vision and action of Tagore at Shantiniketan and Gandhi at Wardha. Tagore experimented with people centred rural development in the villages for the rejuvenation of rural arts and crafts and economy in general. Gandhi relied on the mobilization of masses and their economic upliftment through the development of cottage and small-scale industries.

Q. Ok. I get that participatory development is important. What shapes/forms does it take?

Anisur Rahman has identified the following different forms of community organisations representing collective action by the underprivileged people to improve their socio-economic conditions:

- **First**, there are grassroots organisations that are basically economic in nature, undertaking income-generating activities with the help of internal resource mobilization supplemented by resource and knowledge support from outside
- **Second**, there are other organisations that emerge in ‘pressure group’ activities. They resist exploitation or oppression by other groups, assert economic, social and human rights including women’s rights, or demand services from the public agencies
- **Third**, some of the organisations undertake social and cultural activities in such areas as health, education, culture and so on
- **Fourth**, some aim at the promotion of holistic life by way of activities that integrate spiritual advancement with economic and social development
- **Fifth**, community organisations to promote ecologically oriented socio-economic life are also growing in many areas such as organic agriculture, social forestry, coastal fishing etc.
- **Sixth**, participatory action research is being pursued by some organisations to develop people’s own thinking about their living conditions and environment

Q. This proliferation of community based organisations must be backed by some benefits, right?

The value of participation as a facilitative development process has been widely recognised and major benefits have been identified as follows:

- The participatory process provides important information in the planning, programming and implementation stages thereby ensuring congruence between objectives and community values and preferences
- By rationalizing manpower resources utilization, the process reduces project cost
- Any change brought about through development is more acceptable to the community if the local people are involved, also, mistakes are more tolerable if these are made by people who have to live with them
- Monitoring is better, and sustainability of the project is more likely even after the withdrawal of the external agent, be it government or NGO agency
The community learns from its own involvement and from this point of view, participation is a 2 way learning process in which the administrator and the people become co-learners.

Active community participation helps rebuild community cohesion and installs a sense of dignity into the community. People gain in confidence and steadily emerge as real actors in the development process.

Q. Is community participation then- the answer to all development problems?

Critics of community participation argue: participation has popularity without clarity and is subject to growing faddishness and a lot of lip service.

Serious analysis of local community life reveals differentiation in terms of status, income and power. Conflicts and rivalries are not uncommon even among the poor and underprivileged. The romantic vision of frictionless, harmonious community life does not match ground realities.

External intervention by social workers or political activists has been found necessary almost everywhere to organize the local community and mobilize the local people.

It has also been observed that there is an imaginary notion of continuous activism by the local people behind all discussions on community participation. Total and continuous commitment to activism is more a revolutionary’s dream than the poor people’s actual behaviour.

There are critics who doubt the efficacy of community participation in bringing about radical change in the life of the poor and the underprivileged through autonomous local action only. Small changes are not ruled out, but community participation, to be really effective, needs profound social structural change at both domestic and international levels. Community mobilization cannot, on its own, correct the basic social imbalances that have their roots in deeper socio-economic layers of the society.

Marxist argument: participatory development within capitalist mode is unworkable, the purpose of participation is to diffuse revolutionary movements and create an illusion of solution. The state seeks to subvert popular movements through manipulative co-optation of the poor.

Q. Okay. Participatory development has its faults and shortcomings but it does stand for action, equity in resource distribution & social capital and hence cannot be ignored. What is the role of state in all this?

The state plays a fundamental role in helping or hindering participation. Different social science theories evoke different images of state-society relationships. While Marxian and elite theories are pessimistic about the possibility of community participation, liberal-democratic and pluralist theories are much more helpful.

State’s actions depend upon the definition and purpose of community participation, state’s perception about its role and the political will to decentralize power and resources to local institutions.

Accordingly 4 different state’s responses have emerged (ideal models to characterize better):

Anti-participatory mode: The state in a capitalist system is interested, not in ameliorating the conditions of the poor, but in promoting the interests of capital and the ruling class. Power is, therefore, concentrated and not dispersed to facilitate accumulation of wealth.

Manipulative mode: The state follows a diplomatic approach and the state support to community participation is intended to ensure political and social control as well as reduce local development costs and facilitate successful project implementation. State seeks to neutralize political opposition by co-opting autonomous movements with the ulterior motive of gaining control over them. The rhetoric of participation is invoked to mobilize local labour in state’s development activities and to give legitimacy to the regime in power.

Incremental mode: It is marked by an ambivalent approach to community participation. There is no lack of government support to participation but the policy is unclear and piecemeal & ad-hoc approaches are the norm. The state in reality is not willing to part with power and to devolve resources to local community groups. Also, the bureaucrats and the technocrats have their own ways of bringing about “efficient” local development management. Still, community participation is not, in theory, rejected and decentralisation continues in an ad-hoc fashion with a plurality of actors.
Participatory mode: Characterized by state’s own initiative to create institutions of community participation to ensure effective involvement at the grassroots level. There are no ulterior motives and genuine popular involvement is ensured by providing resources to local bodies and sensitizing bureaucracy through training and directives. Within an overall development planning framework, the central, regional and local development policies and activities are harmonized through positive political will and bureaucratic support.

[Follow-up Q: Which of these modes is true for India? Have we evolved from one mode to another or is there one particular mode more applicable or does the state adopt different modes at different times/places]

Enough of participation, lets come to voluntary organisations:

Q: What is a NGO?

According to the World Bank, “a Non-governmental Organization (NGO) is a private organization that pursues activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development”. In other words, NGOs are legally constituted organizations, operate independently from the government and are generally considered to be “non-state, non-profit oriented groups who pursue purposes of public interest”. The primary objective of NGOs is to provide social justice, development and human rights. NGOs are generally funded totally or partly by governments and they maintain their non-governmental status by excluding government representatives from membership in the organization.

In a democratic society, it is the state that has the ultimate responsibility for ushering development to its citizens. In India, through the progressive interpretation of the Constitution and its laws and policies, the scope of development has been significantly broadened to include not just economic progress for citizens, but also promotion of social justice, gender equity, inclusion, citizen’s awareness, empowerment and improved quality of life. To achieve this holistic vision of development, the state requires the constructive and collaborative engagement of the civil society in its various developmental activities and programs. Non-governmental organisations (NGOs) as the operational arm of the civil society therefore have an important role in the development processes.

Q: What are the different types of civil society organizations?

- **Civil rights advocacy organizations**: to promote human rights of specific social groups e.g. women, migrants, disabled, HIV, sex workers, Dalit people, tribal people, and the likes.
- **Civil liberties advocacy organizations**: to promote individual civil liberties and human rights of all citizens, rather than focusing on particular social group.
- **Community based organizations, citizen’s groups, farmers’ cooperatives**: to increase citizen’s participation on public policy issues so as to improve the quality of life in a particular community.
- **Business and industry chambers of commerce**: to promotion policies and practices on business.
- **Labour unions**: to promote the rights of employees and workers.
- **International peace and human rights organizations**: to promote peace and human rights.
- **Media, communication organization**: to produce, disseminate, or provide production facilities in one or more media forms; it includes television, printing and radio.
- **National resources conservation and protection organizations**: to promote conservation of natural resources, including land, water, energy, wildlife and plant resources, for public use.
- **Private and public foundations**: to promote development through grant-making and partnership.
- **Also** the Civil society includes - Political Parties; Religious Organizations; Housing cooperatives, slum dwellers and resident welfare associations.

Q: What has been the interaction and relationship between the Indian state and NGOs like?

In India the state policies have significantly influenced the formation of NGOs and their activities. The government sponsored and aided programmes provided financial assistance to NGOs either as grants or as matching grants to support the implementation of social development projects. The need for the involvement of voluntary organisations has been acknowledged by a number of official committees dealing with development.
Balwant Rai Mehta Committee, 1957: Today in the implementation of the various schemes of community development, more and more emphasis is laid on NGOs and workers and on the principle that ultimately people’s own local organisations should take over the entire work.

Rural-Urban Relationship Committee, 1966: Local voluntary organisations can be very helpful in mobilizing popular support and assistance of the people in the activities of local body. It is possible to maintain constant and close contact with the people through these organisations.

Ashok Mehta Committee: Of the several voluntary organisations engaged in rural welfare, a few have helped the PRIs in preparation of area development plans, conduct feasibility studies and cost/benefit analysis, explore ways and means to induce local participation in planning and implementation.

In the Sixth Five Year Plan (1980-1985), the government identified new areas in which NGOs as new actors could participate in development.

The Seventh Five Year Plan (1985-1990), envisioned a more active role for NGOs as primary actors in the efforts towards self-reliant communities. This was in tune with the participatory and empowerment ideologies, which was gaining currency in the developmental discourse at that time.

Government support and encouragement for NGOs continued in the Eighth Five-year plan, where a nation-wide network of NGOs was sought to be created.

The Ninth Five-year plan proposed that NGOs should play a role in development on the public-private partnership model. Also, the agricultural development policies of the government and its implementation mechanisms provided scope and space for NGOs. A case in point is the watershed development program, which has led to the growth of NGOs working for rural development.

In March 2000, the Government declared Planning Commission as the nodal agency for GO-NGO interface. The message was clear: government has to and will work with the voluntary sector. A ‘Civil Society Window’ was started in 2004, in the hope that it would enable people to engage with the Planning Commission and offer the benefit of their field experiences.

During the 11th Five Year Plan process a regional consultation was organised to get civil society feedback. Participation of Civil Society (CS) had thus already become a strong and robust element in the preparation of the Plan. Consultations with citizens on the Approach Paper to the 12th Plan began on many platforms, including the internet. Members of Planning Commission travelled across the country attending Public Meetings called by CS around various sectoral issues to gather inputs for the 12 Five Year Plan.

National Policy on the Voluntary Sector, 2007: Recognizes the contribution of the voluntary sector and the need for Government- Voluntary Sector partnership and that project grants are a useful means for both the Government to promote its activities without its direct involvement and a valuable source of support to small and medium Voluntary Organizations. It highlights the need for Government to encourage all Central and State Government agencies to introduce pre-service and in-service training modules on constructive relations with voluntary organizations. It recognizes the difficulties faced by the voluntary sector in accessing government schemes and suggests ways to tackle this. The main objective of the National Policy on the Voluntary Sector is to identify systems by which the Government may work together with the Voluntary Organizations on the basis of the principles of mutual trust, respect and shared responsibility. It also recognizes the importance of independence of voluntary organizations, which allows them to explore alternative models of development. The National Policy on the Voluntary Sector is just the beginning of the process to evolve a new working relationship between the government and the voluntary sector without affecting its autonomy and identity. There are many areas in which help of the voluntary sector is sought- for social audits, behaviour change, good governance and increasingly even for better service delivery.

Q: How has India benefitted from NGOs?

India has a long history of civil society based on the concepts of “daana” means giving and “seva” means service. Voluntary organizations were active in cultural promotion, education, health, and natural disaster relief as early as the medieval period. During the second half of the 19th century, nationalist consciousness spread across India and self-help emerged as the primary focus of socio-political movements. The early examples of such attempts are Friend-in-Need Society (1858), Prathana Samaj (1864), Satya Shodhan Samaj (1873), Arya Samaj (1875), the National Council for
Women in India (1875), the Indian National Conference (1887) etc. The Society’s Registration Act (SRA) was approved in 1860 to confirm the legal status of the growing body of non-governmental organizations.

In India, it was the 1970s which saw rapid growth in the formation of formally registered NGOs and the process continues to this day. Most NGOs have created their respective thematic, social group and geographical priorities such as poverty alleviation, community health, education, housing, human rights, child rights, women’s rights, natural resource management, water and sanitation; and to these ends they put to practice a wide range of strategies and approaches. Primarily, their focus has been on the search for alternatives to development thinking and practice; achieved through participatory research, community capacity building and creation of demonstrable models. When we review some of the work done by NGOs over the past 3 decades, we find that they have contributed greatly to nation building.

Many NGOs have worked hard to include children with disability in schools, end caste- based stigma and discrimination, prevent child labour and promote gender equality resulting in women receiving equal wages for the same work compared to men. During natural calamities they have played an active role in relief and rehabilitation efforts, in particular, providing psycho-social care and support to the disaster affected children, women and men. NGOs have been instrumental in the formation and capacity building of farmers and producers’ cooperatives and women’s self- help groups. Several NGOs have worked hand in hand with the Government to ensure that millions of out of school children are enrolled and continue their school education, thus making the right to education a reality. The leprosy eradication programme was spearheaded by NGOs and today only residual leprosy remains in our country. NGOs have implemented the JeevanDhara programme for creation of wells for safe drinking water; promoted community toilets for total sanitation, and supported the public health programs on immunisation and for eliminating tuberculosis and malaria. The much celebrated NREGA, ICDS, ICPS, Nirmal Gram and SwasthyaBima of the government have their roots in the work of many NGOs. NGOs have significantly influenced the development of laws and policies on several important social and developmental issues such as the right to information, juvenile justice, ending corporal punishment in schools, anti-trafficking, forests and environment, wildlife conservation, women, elderly people, people with disability, rehabilitation and resettlement of development induced displaced people to name a few. Further, NGOs made their modest attempts to ensure the effective implementation of these laws and policies by conducting and disseminating findings from participatory research, budget analysis, public hearings, social audits, workshops, seminars and conferences.

Summing up, it is now well established that NGOs have an important role to play in the development processes and that both the state and market need the collaboration of credible, active, and accountable NGOs. Given their connect with the grassroots realities, NGOs can and should play the “game changer” to pro-poor development through leadership on participatory research, community empowerment and search for development alternatives.

With the increasing role of the NGOs in development activities they are now attracting professionals from various other sectors, and capacities are being built in support areas such as financial management, resource mobilization, human resources, leadership development, governance procedures and practices and institutional development. At another level NGOs have been addressing the social service issues and empowerment related advocacy efforts have been increasing. The study conducted by a New Delhi based NGO concluded that every fifth NGO in India works on the issues of community and social service. The favourable disposition of the governments and the political will to involve NGOs is more pronounced in implementation of the welfare schemes addressing causes of women and children. Further, the industrial policies have influenced the formation and relations between the businesses and NGOs. The Confederation of Indian Industries (CII), a leading organisation, has been raising the issues of corporate social responsibility. The emphasis of industrial policies on the promotion and development of small, cottage and village industries has also led to the formation of agencies such as the Khadi and Village Industries Commission, Small Industries Associations and likes.

Profiling NGOs:

India has possibly the largest number of active non-government, non-profit organizations in the world. There has been a sharp increase in the number of new NGOs in the past decade in India. According to a government study, there were only 1.44 lakh registered societies till 1970. The maximum increase in the number of registrations happened after 2000. A recent study commissioned by the government showed that there are about 3.3 million NGOs in India by the end of 2009 i.e., one NGO for less than an average of 400 Indians. Even this staggering number may be less than the actual number of NGOs active in the country. This is because the study, commissioned in 2008, took into consideration only those entities which were registered under the Societies Registration Act, 1860 or the Mumbai Public Trust Act and its variants in other states.
It can be noted that a great majority of the NGOs are small and about three-fourths of all NGOs are run entirely by volunteers. About 13 percent of the NGOs have between 2 to 5 employees; about 5 percent have between 6 to 10 employees and only about 8.5 percent NGOs employ more than 10 people. According to a survey conducted by society for Participatory Research in Asia (PRIA), 73.4 percent of NGOs have one or no paid staff, although across the country, more than 19 million persons work as volunteers or paid staff at an NGO. More often NGOs are registered as trusts, societies, or as private limited non-profit companies, under Section- 25 of Indian Companies Act, 1956. They also enjoy income tax exemption. Foreign contributions to non-profits are governed by Foreign Contribution Regulation Act (FCRA), 1976.

Q: What are the key governance challenges facing NGOs?

In view of the emergence of a new paradigm of scaling up, in which NGOs are seen as catalysts of policy innovations and social capital; as creators of programmatic knowledge that can be spun off and integrated into government and market institutions; and as builders of vibrant and diverse civil societies, it’s imperative to critically analyze the role of NGOs in the process of development and understanding the challenges facing the sector.

Transparency and accountability are key ingredients of Governance in the NGO Sector as these determine operational efficiencies and risk mitigation. Over the years, corporate sector has been able to recognize and implement best governance practices through appropriate institutional framework. However, the NGO sector is yet to evolve any institutionalized framework, which could potentially play an important role in overall development of the nation. NGOs play an increasingly active role in today’s political and social arenas. Civil society organizations are increasing in number all over India. Of late, some of the local and national NGOs have been found involved in malpractices and acting irresponsibly, thus undermining the credibility of civil society. It’s a huge concern and poses a great challenge to the development movement spearheaded by NGOs in the country.

There is a huge flow of funds into the non-government organization sector and this requires prudence and good practices to maintain accountability and transparency to the benefit of all stakeholders. Although NGOs do internal auditing but for more accountability and transparency, it is advisable to go through external auditing also, especially where public funds are involved. Hence, issues of internal control mechanisms, professionalism, accountability, transparency and financial management must be given impetus. The challenge is multidimensional, and is compounded by the ‘unorganised’ nature of the sector, lack of regulatory frameworks and the fact that India boasts of more than a million NGOs of different roles, structures and sizes. In particular, the Indian voluntary sector urgently needs self-regulatory guidelines and transparency mechanisms to increase the trust and awareness as to how the philanthropic funds are being utilised.

This is a critical challenge that creates a barrier to raising funds and capital for the sector. The general lack of transparency in the functioning of a large proportion of NGOs leads to aversion in donating funds for charitable causes since the general public is largely cynical about the ‘genuineness’ of the non-profit spirit of the sector. The stringent governance standards of an NGO will facilitate the effective management and increase the accountability to its stakeholders including donors, the government and the community. It is in the self-interest of the NGOs to realize the fact that to implement a structure of ‘corporate governance’ principles would provide the real value to the stakeholders.

Also, this would enable to track the potentially dubious sources of funding coming in for the voluntary sector – an aspect which has gained impetus in the wake of the increased number of terror attacks and extremist activities. Recently, the Union Home Ministry has identified some NGOs as security threat to the country. Such security considerations have underscored the rising need of improving the governance practices in the Indian NGOs and exercising better regulatory mechanisms, disclosure norms, and management processes including financial management and budgeting systems as well. Moreover, in the larger interest going beyond the security considerations, the impetus has to be on inculcating a culture of including performance goals, conducting financial and performance audits, and reforms for increasing the operational accountability and transparency in the eyes of the public, volunteers, donors and other stakeholders.

Suggestions:

The implementation of a strategic framework is essentially important in the management of an NGO. The endorsement of such a framework brings in professionalism and internal control mechanisms, which further makes the organization’s performance more effective. Developing strategies also include establishing a mechanism of consistent monitoring of whether they are being implemented and linking the results to the organization’s goals.
There is need to bolster public confidence in the voluntary sector by opening it up to greater public scrutiny. The Government should encourage Central and State level agencies to introduce norms for filing basic documents in respect of NGOs, which have been receiving funding by Government agencies and placing them in the public domain (with easy access through the internet) in order to inculcate a spirit of public oversight.

Public donation is an important source of funds for the NGO sector and one that can and must increase substantially. Tax incentives play a positive role in this process. The Government could simplify and streamline the system for granting income tax exemption status to charitable projects under the Income Tax Act. At the same time, the Government might consider tightening administrative and penal procedures to ensure that these incentives are not misused by paper charities for private financial gain.

The Government should encourage all relevant Central and State Government agencies to introduce pre-service and in-service training modules on constructive relations with the voluntary sector. Such agencies need to introduce time bound procedures for dealing with the VOs. These could cover registration, income tax clearances, financial assistance, etc. There must be a formal system for registering complaints and for redressing grievances of NGOs.

The Government should encourage setting up of Joint Consultative Groups / Forums or Joint Machineries of government and voluntary sector representatives, by relevant Central Departments and State Governments. It also needs to encourage district administrations, district planning bodies, district rural development agencies, zillaparishads and local governments to do so. These groups could be permanent forums with the explicit mandate to share ideas, views and information and to identify opportunities and mechanisms of working together. The Government also might introduce suitable mechanisms for involving a wide cross-section of the voluntary sector in these Groups/Forums.

Summing Up:

We are entering into an important phase where there are many targets that the government intends to achieve with the active collaboration of VOs, in the 12th plan. Therefore, it is important to conduct an effective review or report card of the National Policy with specific recommendations. These recommendations could become an agenda for all Voluntary Organizations, Planning Commission, state governments and national Ministries. Efforts are also needed to further disseminate the information about the policy and its intentions with small VOs as well as government functionaries. There is a need to solicit commitment from state governments and national ministries. A systematic intervention is also needed to get National Policy approved and adopted by the Indian Parliament. The most serious challenge faced by India today is the conflict between violent and non-violent approach of development. Needless to say that majority of population of India is still deprived of basic fruits of development, but rather than adopting the approach which is more inclusive and look for solutions within the constitution, India is faced by disturbances in many parts of the country. This not only hampers the development projects but also shrink the space for people’s participation to achieve their goals through peaceful means. The voluntary sector being present in such locations faces the challenge of delivering the services and even mobilizing people on the development agenda. The need of the hour is to work closely with each other for the benefit of the marginalized people, as even today the dream of Mahatma Gandhi has not been achieved.

Having looked at NGOs, now let us take a look at SHGs:

Q: What are SHGs?

Self-Help Groups are informal associations of people who choose to come together to find ways to improve their living conditions. They help to build Social Capital among the poor, especially women. The most important functions of a Self-Help Groups are

- to encourage and motivate its members to save
- to persuade them to make a collective plan for generation of additional income
- to act as a conduit for formal banking services to reach them.

Such groups work as a collective guarantee system for members who propose to borrow from organised sources. Consequently, Self-Help Groups have emerged as the most effective mechanism for delivery of micro-finance services to the poor. The range of financial services may include products such as deposits, loans, money transfer and insurance.
Q: Evolution of the SHG movement in India:

The first organised initiative in this direction was taken in Gujarat in 1954 when the Textile Labour Association (TLA) of Ahmedabad formed its women’s wing to organise the women belonging to households of mill workers in order to train them in primary skills like sewing, knitting embroidery, typesetting and stenography etc. In 1972, it was given a more systematized structure when Self Employed Women’s Association (SEWA) was formed as a Trade Union under the leadership of Ela Bhatt. She organised women workers such as hawkers, vendors, home based operators like weavers, potters, papad / agarbatti makers, manual labourers, service providers and small producers like cattle rearers, salt workers, gum collectors, cooks and vendors with the primary objective of (a) increasing their income and assets; (b) enhancing their food and nutritional standards; and (c) increasing their organisational and leadership strength. The overall intention was to organise women for full employment. In order to broaden their access to market and technical inputs, these primary associations were encouraged to form federations like the Gujarat State Mahila SEWA Cooperative Federation, Banaskantha DWCRA, Mahila SEWA Association etc. Currently, SEWA has a membership strength of 9,59,000 which is predominantly urban. In the 1980s, MYRADA — a Karnataka based non-governmental organisation, promoted several locally formed groups to enable the members to secure credit collectively and use it along with their own savings for activities which could provide them economically gainful employment.

Major experiments in small group formation at the local level were initiated in Tamil Nadu and Kerala about two decades ago through the Tamil Nadu Women in Agriculture Programme (TANWA) 1986, Participatory Poverty Reduction Programme of Kerala, (Kudumbashree) 1995 and Tamil Nadu Women’s Development Project (TNWDP) 1989. These initiatives gave a firm footing to SHG movement in these states. Today, around 44% of the total Bank-linked SHGs of the country are in the four southern States of Andhra Pradesh, Tamil Nadu, Karnataka and Kerala.

The positive experience gained from the above programmes has led to the emergence of a very strong consensus that the twin concepts of (a) small group organisation and (b) self-management are potent tools for economic and social empowerment of the rural poor. Efforts have been made almost in all parts of the country to adopt this model as a necessary component of the poverty alleviation programmes.

Forming small groups and linking them to bank branches for credit delivery has been the most important feature of the growth of the SHG movement in our country. The SHG-Bank linkage programme was started as a test project in 1989 when NABARD, the Apex Rural Development Bank in the country, sanctioned Rs.10.0 lakhs to MYRADA as seed money assistance for forming credit management groups. In the same year, the Ministry of Rural Development provided financial support to PRADAN to establish Self-Help Groups in some rural pockets of Rajasthan. On the basis of these experiences, a full-fledged project involving a partnership among SHGs, Banks and NGOs was launched by NABARD in 1992. In 1995, acting on the report of a working group, the RBI streamlined the credit delivery procedure by issuing a set of guidelines to Commercial Banks. It enabled SHGs to open Bank Accounts based on a simple inter-se agreement. The scheme was further strengthened by a standing commitment given by NABARD to provide refinance and promotional support to Banks for credit disbursement under the SHG – Bank linkage programme. NABARD’s corporate mission was to make available microfinance services to 20 million poor households, or one-third of the poor in the country, by the end of 2008. In the initial years, the progress in the programme was a slow; only 33000 groups could be credit linked during the period 1992-99. But, thereafter, the programme grew rapidly and the number of SHGs financed increased from 82000 in 1999-2000 to more than 6.20 lakhs in 2005-06 and 6.87 lakhs in 2006-07. Cumulatively, 33 million poor households in the country have been able to secure access to micro-finance from the formal banking system.

(As a follow-up read up on the success stories particularly the Kudumbashree programme of Kerala in ARC 2 - Report 09 Social Capital Page 80-81)

Q: What other Agencies are involved in the SHG movement?

Apart from NABARD, there are four other major organisations in the public sector which too provide loans to financial intermediaries for onward lending to SHGs. They are (a) Small Industries Development Bank of India (SIDBI), (b) Rashtriya Mahila Kosh (RMK), (c) Housing and Urban Development Corporation (HUDCO) and (d) then, there are public sector/other commercial banks which are free to take up any lending as per their policy and RBI guidelines.
Rashtriya Mahila Kosh:

The Rashtriya Mahila Kosh was set up by the Government of India in March 1993 as an Autonomous Body registered under Societies Registration Act, 1860 under the Department (now Ministry) of Women and Child Development. The objective was to facilitate credit support to poor women for their socio-economic upliftment. It was felt that the credit needs of poor women, especially those in the unorganized sector, were not adequately addressed by the formal financial institutions of the country. Thus RMK was established to provide loans in a quasi-formal credit delivery mechanism, which is client-friendly, has simple and minimal procedure, disburses quickly and repeatedly, has flexible repayment schedules, links thrifts and savings with credit and has relatively low transaction costs both for the borrower and the lender. The Kosh lends with a unique credit delivery model “RMK – NGO-SHG- Beneficiaries”. The support is extended through NGO’s, Women Development Corporations, State Government agencies like DRDA’s, Dairy Federations, and Municipal Councils etc.

SIDBI:

Small Industries Development Bank of India (SIDBI) launched its micro finance programme on a pilot basis in 1994 using the NGO / MFI model of credit delivery wherein such institutions were used as financial intermediaries for delivering credit to the poor and unreached, mainly women. Learning from the experience of the pilot phase, SIDBI reoriented and upscaled its micro finance programme in 1999. A specialised department viz. ‘SIDBI Foundation for Micro Credit’ (SFMC) was set up with the mission to create a national network of strong, viable and sustainable Micro Finance Institutions (MFIs) from the informal and formal financial sectors. SFMC serves as an apex wholesaler for micro finance in India providing a complete range of financial and non-financial services to the MFIs so as to facilitate their development into financially sustainable entities, besides developing a network of service providers and advocating for appropriate policy framework for the sector. SFMC is implementing the National Micro Finance Support Programme (NMFSP). The overall goal of NMFSP is to bring about substantial poverty elimination and reduced vulnerability in India amongst users of micro-finance services, particularly women.

Private Initiatives:

Though, government efforts have played a major role in advancing the SHG movement in the country, there have been a large number of voluntary organisations (NGOs) which too have facilitated and assisted SHGs in organizing savings and credit in different parts of India. SEWA in Ahmedabad, MYRADA in Karnataka, Nav Bharat Jagriti Kendra and Ramakrishna Mission in Jharkhand, and ADITHI in Bihar are some of the names which took the lead in promoting Self-Help Groups (mostly of women) around income generation activities using local skills. From organizing villagers into groups which could work on viable activities, to making a project and securing funds (own contribution or through a tie-up with the financial institution), these VOs have worked with involvement and dedication. PRADAN (Professional Assistance for Development Action), DHAN Foundation, ASSEFA (Association of SarvaSeva Farms, MALAR (Mahalir Association for Literacy, Awareness and Rights), SKS, Janodaya, Cohesion Foundation and Jan ChetnaSansthan are some of the other major non-governmental institutions which are promoting and nurturing a large number of SHGs of poor people, mostly women in effective organisations which could leverage credit from formal sources, and develop local resources and skills to increase productivity and income. It is thus, due to the combined efforts of the government and these private voluntary agencies that the SHGs have come to occupy a place of prominence in the socio-economic fabric of rural India.

Q: What has been the impact of SHGs on rural life?

A random impact evaluation study covering 560 members of 223 SHGs linked to Banks located in 11 States was carried out by NABARD. A three year period was selected for this study. The results of this survey released in 2000 indicated that

- 58% of the households covered under SHGs reported an increase in assets;
- the average value of assets per household increased by 72% from Rs.6,843 to Rs.11,793;
- majority of the members developed savings habit against 23% earlier;
- there was a threefold increase in savings and a doubling of borrowings per household;
- the share of consumption loan in the borrowing went down from 50% to 25%;
- 70% of the loans taken in post-SHG period went towards income generation ventures;
- employment expanded by 18%;
- the average net income per household before joining a SHG was Rs.20,177 which rose by 33% to 26,889; and
- about 41.5% of the household studied were below their state specific poverty line in the pre-SHG enrolment stage; it came down to 22%.
Participation in group activity significantly contributed to improvement of self-confidence among the members. In general, group members and particularly women became more vocal and assertive on social and family issues.

The structure of the SHG is meant to provide mutual support to the participants in saving money, preparing a common plan for additional income generation and opening bank accounts that would help them in developing credit relationship with a lending institution. It ultimately supports them in setting up micro-enterprises e.g. personalised business ventures like tailoring, grocery, and tool repair shops. It promotes the concept of group accountability ensuring that the loans are paid back. It provides a platform to the community where the members can discuss and resolve important issues of mutual concern.

While some of the SHGs have been initiated by the local communities themselves, many of them have come through the help of a mentor Body (either government or an NGO) which provided initial information and guidance to them. Such support often consists of training people on how to manage Bank accounts, how to assess small business potential of the local markets and how to upgrade their skills. In the end, it creates a local team of resource persons.

Group formation becomes a convenient vehicle for credit delivery in rural areas. Commercial Banks and other institutions which are otherwise not receptive to the demands of marginalized individuals, start considering such groups as their potential customers. Overall such Joint-Liability Groups expand the outreach of the micro-finance programme in an effective way, reaching out to the excluded segments e.g. landless, sharecroppers, small and marginal farmers, women, SCs/STs etc.

The majority of Self-Help Groups comprise of women members. There is evidence in this country as well as elsewhere that formation of Self-Help Groups has a multiplier effect in improving women’s status in society as well as in the family. Their active involvement in micro-finance and related entrepreneurial activities not only leads to improvement in their socio-economic condition but also enhances their self-esteem. Women in a group environment become more articulate in voicing their concerns and a change occurs in their self-perception. They start to see themselves not only as beneficiaries but also as clients/informed citizens seeking better services. On the home front, their new found awareness and the confidence generated out of their entrepreneurial skills make them more confident vis-à-vis their menfolk.

The SHG programme has contributed to a reduced dependency on informal money lenders and other non-institutional sources. It has enabled the participating households to spend more on education than non-client households. Families participating in the programme have reported better school attendance and lower drop-out rates.

The financial inclusion attained through SHGs has led to reduced child mortality, improved maternal health and the ability of the poor to combat disease through better nutrition, housing and health – especially among women and children.

But the SHG movement has certain weaknesses as well:

- contrary to the vision for SHG development, members of a group do not necessarily come from the poorest families;
- the SHG model has led to definite social empowerment of the poor but whether the economic gains are adequate to bring a qualitative change in their life is a matter of debate;
- many of the activities undertaken by the SHGs are still based on primitive skills related mostly to primary sector enterprises. With poor value addition per worker and prevalence of subsistence level wages, such activities often do not lead to any substantial increase in the income of group members.
- There is lack of qualified resource personnel in the rural areas who could help in skill upgradation/acquisition of new skills by group members.

**Q: What then are the key issues facing SHGs today?**

Though, during a short span of fifteen years the SHG movement has recorded remarkable progress much still remains to be done. The movement shows steep territorial variations. Many areas of the country lack adequate banking structure. Urban and semi-urban areas, to a large extent, stand excluded from this mode of credit delivery. Further growth of this movement faces threat from inadequacy of skills in the rural areas. And finally the pace of the movement needs to be accelerated. The following eight issues of this sector deserve priority attention:
• **Maintaining the participatory character:**

We saw the cooperative sector became a springboard for political aspirants. Though the SHG movement is relatively new, government interventions and subsidies have already started showing negative results. The patronage and subsidies provided to the SHGs by government and the Panchayats often lead to their politicization. Therefore, due care must be taken to ensure that government initiatives do not erode the fundamental principles of self-help and empowerment of the poor.

• **Need to expand** the SHG movement to States such as Bihar, Uttar Pradesh, Madhya Pradesh, Orissa, Rajasthan and in the North-East (where the SHG movement and micro-finance entrepreneurship is weak):

Overall 73% of the farmer household (in rural areas) have no access to any formal source of credit. In March, 2001, 71% of the total linked SHGs of the country were in just four States of the southern region viz. Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. The figure went down to 58% in 2005, 54% in 2006 and to 44% in 2007. But even the current figure is a cause of concern when one talks of financial inclusion for the whole country.

• **Need to extend** small group organisations (SHGs) to peri-urban and urban areas:

According to the 2001 census, 314.54 million persons changed their place of residence (vis-à-vis the situation in the 1991 census) within the country and out of this 29.90 million or 9% changed their place of residence in search of better prospects elsewhere. Since issue of any form of identity card is invariably linked with the possession of an immovable property, such migrant workers do not have any formal document to prove their domicile in the city. But the overall economic and social well-being of the city is closely linked with the condition of this section of the city dwellers. In the absence of any documentary proof, it appears that this class of people do not have access to organised financial services. As per the existing statutory provisions, NABARD’s mandate is to provide micro-finance facilities only to rural and semi-urban areas. Branches of the mainstream Banks too, though, equipped with manpower and technology, are not keen to service this sector. Even money lenders are reluctant to lend to them. The net result is that this segment of the urban population e.g. pavement sellers, street hawkers, construction workers etc. remains financially excluded.

• **Mode of SHG development and financial intermediation:**

Establishing stable linkage between a SHG and a local financial institution is one of the key elements of the SHG movement. Currently, four distinct models of financial intermediation are in operation in various parts of the country namely:

- SHG-Bank linkage promoted by a mentor institute
- SHG-Bank direct linkage
- SHG-Mentor Institution linkage; and
- SHG-Federation model

Since the borrowing SHGs consist mainly of low income members who cannot afford to miss even a day’s wages, a hassle-free transaction with a Bank which is ready to come to their doorsteps with appropriate credit products is of great value to them. The SHG – Bank Linkage Model with a mentor SHPI in tow (Model I above) would be the most appropriate one for delivery of financial services to the SHGs.

• **Self-Help Groups and Regional Rural Banks:**

As on 1st April, 2007, out of a total of 622 districts in the country, 535 have a network of Regional Rural Banks; the rest 87 districts have no RRB presence. These branches have been created by the Regional Rural Banks Act, 1976 primarily for providing institutional credit to the marginalized sector of the rural economy (small, marginal farmers, landless labour and rural artisans). The extension of the RRB network to the remaining 87 districts would considerably speed up the process of inclusive banking and help in extending micro-finance to local SHGs.

• **Issues of sustainability:**

The institutional sustainability and the quality of operations of the SHGs are matters of considerable debate. It is generally held that only a minority of the Self-Help Groups are able to raise themselves from a level of micro-finance to that of micro-entrepreneurship. Neither do such Bank linkages lead to sanction of larger individual loans under the Bank’s normal lending programmes. The ultimate objective of such a tie-up is to impart financial strength to the SHGs so that they can enter into a stable relationship with the local financial institutions - without any external support.
Even after many years of existence, by and large, SHGs are heavily dependent on their promoter NGOs or government agencies

- **Financial assistance to SHPIs and othersupport institutions:**

Forty-five per cent of the total numbers of women SHGs of the country are located in Andhra Pradesh. This enviable position of the State is primarily due to the initiative shown by promoter NGOs often known as Self-Help Promoting Institutions (SHPIs) / mentor organisations. If the SHG movement is to spread across the entire country, there is need to provide major incentives to SHPIs / promoter NGOs. Currently, the financial support to SHPIs comes from the Micro Finance Development and Equity Fund (MFDEF) of NABARD. It is limited to an amount of Rs.1500 per SHG (formed and activated). To attract more and more SHPIs to the rural areas, this quantum of support needs to be revised.

- **Role of Micro-Finance Institutions:**

Micro-credit is defined as provision of thrift, credit, and other financial services (such as deposits, loans, payment services, money transfer, insurance and related products) of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve living standards. Micro-finance institutions are those which provide such micro-credit facilities. Micro-credit is an instrument of both social as well as economic policy. It opens up integral development processes such as use of financial and technical resources, basic services and training opportunities to the unprivileged. Access to savings, credit, money- transfer, payment, and insurance can help poor people take control of their financial life. It also empowers them to make critical choices about investing in business, sending children to school, improving health care of the family, covering the cost of key social obligations and unforeseen situations. But the most important of all, an access to finance generates self - esteem among them.

ARC-2 has made the following recommendations and the Micro Finance Sector (Development and Regulation) Bill, 2007 needs to be amended to include the following suggestions:

- The scope of Micro-finance Services should be substantially widened to cover credit / savings, insurance, pension services, money transfer, issue / discount of warehouse receipts and future / option contracts for agricultural commodities and forest produce.
- The activities of Section 25 Companies to the extent they concern micro-financial services as described under the proposed Bill should also be brought under the purview of this legislation. However, for their management and other functions, they will continue to be governed by the provisions of the Companies Act.
- The issue of interest rate charged by the MFIs should be left to the Regulatory Authority which is being created under the proposed Bill.
- It should be ensured that if MFIs are allowed to handle thrift / savings and money transfer services, they would do so only as business correspondents of commercial Banks.

Q: With an eye on the future, let us explore Corporate-SHG linkages for rural markets:

Rural Market offers tremendous potential of growth for corporations by making their products and services available to these areas. Lot of interventions are designed by various companies to tap the rural market including designing tailor made supply chain, rural marketing campaigns, pruning marketing mix elements and integrating social elements to develop their brand awareness and market for their products. Apart from all these endeavours there is still a significant area largely untapped. Integration of SHGs with corporations as a part of their company policies in tackling the issues of reach and market awareness is a win-win solution. With various government initiatives including Promotion of SHG formation, microenterprise development, microcredit by FIIs and NBFCs and skill training, SHGs are becoming viable in their operations. Symbiotic association of corporations and SHGs utilizing distinctive competence can prove to be fruitful for both in the long run broadly in the form of market and socio-economic development. SHGs are broadly studied on two basis- Microfinance and Microenterprises. The first aspect of SHGs (Microfinance) is widely studied and several changes have been incorporated towards making SHGs viable. Development of Micro-enterprises is relatively a new phenomenon. As per study of M.Kunhaman, 2012, SHGs can better promote Micro-enterprises, especially in rural areas.

The real effort to support SHGs in India, however, came in the late 1990s when the central government of India introduced a holistic program, SGSY- Swarnajayanti Gram SwarozgarYojana based on the group approach for rural development. The SGSY approach was to encourage the rural poor to organise themselves into SHGs and to independently take up viable economic activities as micro-enterprises with support from government subsidies and
bank credit. With the development of industrial norms, micro-enterprises are also coming up apart from large, medium and small industries. Micro-enterprises can be started and managed by individuals, groups or SHGs. Intended to strengthen viable, small businesses, resulting in increased household income and savings and thus alleviating the crunch of economic poverty, Micro-enterprise development aims at building self-esteem, self-reliance, encouraging autonomy and creating a community atmosphere. It builds economic capital by creating jobs and generating income, ultimately working towards community development in impoverished or unemployed areas.

The report of the working committee of RBI (1994) proposed the integration of SHGs into the strategies and policies of corporations. SHGs can provide a suitable option for companies to integrate into various functions such as- Marketing, Distribution, Procurement of various raw materials and semi-finished materials, Production and processing of indigenous products etc. For example, TAJ group has adopted a SHG for procurement of sea food and meet 60% of their demands through the SHG. SHGs can also become a suitable vehicle for distribution of rural products and help in faster diffusion of innovation in the rural market.

### Corporate Needs:
- Business Expansion
- Greater Market Segment
- Product Penetration & Diffusion
- Brand Awareness

### SHG Needs:
- Scale of Production
- Marketability
- Production Methods
- Capital, Technology and Skills

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